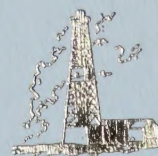


AR47

*L*ayrock
*L*esources
LIMITED

ANNUAL REPORT

1980



Directors

J. C. BYRNE, Toronto
Chairman and Chief Executive Officer,
Discovery Mines Limited

D. R. CROMBIE, Toronto
President and Operations Manager,
Discovery Mines Limited

H. EARL JOUDRIE, Calgary
President and Chief Executive Officer,
Voyager Petroleum Ltd.

JOHN KOSTUIK, Toronto
Director and Consultant, Denison Mines Limited

J. J. RANKIN, Toronto
Chairman and Chief Executive Officer,
Pominex Limited

G. T. SMITH, Toronto
President, Northgate Explorations Limited

H. J. WHELAN, Toronto
President and Chief Executive Officer,
Lummus Canada Inc.

Officers

J. C. BYRNE
Chairman of the Board and Chief Executive Officer

D. R. CROMBIE
President and Operations Manager

W. STEUERMAN
Secretary-Treasurer

Senior Geologist

T. Antoniuk

Executive Office

Suite 1011, 2200 Yonge Street, Toronto, Canada

Transfer Agents and Registrars

CROWN TRUST COMPANY, Toronto

Bankers

ROYAL BANK OF CANADA,
Bay and Temperance Branch, Toronto

Auditors

COOPERS & LYBRAND, Toronto

Solicitors

CAMPBELL, GODFREY & LEWTAS, Toronto

Annual Meeting

May 29, 1981, 11:00 a.m., Alberta Room,
Royal York Hotel, Toronto, Canada

Directors' Report to the Shareholders

1980 Highlights

- Pinson gold mine began bullion production on target
- Successful year in oil and gas exploration
- Significant earnings increase

Mining

The 1,000 ton per day Pinson open pit gold mine, 26.5% owned by Rayrock, commenced milling operations on schedule in early January, and by February the recovery and ore grade were right up to plan. Construction and mine development started in February 1980 and were substantially completed eleven months later at a total cost, including working capital and interest during construction, of US \$18,800,000. Financing was provided by a bank project loan of \$15,750,000 plus \$3,050,000 of equity contributions by the owners. Ore reserves available in the main pit are 3,250,000 tons of 0.12 ounces gold per ton plus 5,000,000 tons of heap leaching material averaging .025 ounces per ton. Additional reserves within trucking distance of the mill are controlled by Pinson. At an average gold price of US \$500 per ounce, the project is forecast to repay the bank loan in eighteen months and thereafter will generate very significant cash flow for Rayrock. The mine is located in northern Nevada.

The Gordon Lake, N.W.T. property of Discovery Mines Limited, an associated company, came into production in mid-1980. The property has been leased to Noranda Mines Limited and Pamour Porcupine Mines Limited. The Lessees placed a mining plant, camp facilities and a 150 ton per day modular mill on site during the first half of 1980. Limited production began in July 1980 and has continued since that time. Ore grade and tons treated up to the year end were both lower than planned, and the project incurred an operating loss in 1980. Improvements to the operation have been made since year end and better results are expected.

Discovery has also made exploration agreements on three of its gold properties, and these will be subject to extensive work programs in 1981. Rayrock holds a 41% share interest in Discovery Mines.

Rayrock's budget for mining exploration increased during the year. The principal effort is in the western United States with the Cordex IV Syndicate, one-third financed by your company. Exploration and drilling are proceeding on several precious metal prospects. At Hasbrouck Mountain, a program has been initiated to determine whether a gold-silver heap leach operation will be feasible.

Oil and Gas

Your company participated in a record 50 exploratory wells and 23 development wells in 1980. The main area of activity was Alberta and, in addition, wells were drilled in Oklahoma, Montana and Ontario. The results for the exploration drilling were 30 gas wells, 6 indicated oil wells, one heavy oil well and 13 dry holes. All 23 development wells were completed as gas producers. The total expenditure for drilling, completions and land acquisitions was \$1,175,000.

At Forestburg in east central Alberta, Rayrock owns a 12% interest in a gas processing plant with a capacity of 4,500,000 cubic feet per day which came on stream in March 1980. In addition, the company has varying interests in 14 gas wells that are within production distance of that plant.

The wholly-owned oil operations in Ontario experienced a satisfactory year. Production was 99,277 barrels and the decline of 3.2% from 1979 was less than normal. Operating costs increased 5.6%, and net field revenue amounted to some \$914,000 which was an increase of 16.5% over 1979.

During the past few years, Rayrock has participated in certain specific projects with Signalta Resources Limited of Calgary. Beginning in January 1981, Rayrock will be financing 5% of Signalta's total budget and, consequently, will be



David R. Crombie



Jerome C. Byrne

participating in all of Signalta's projects. The Signalta budget for Canada and the United States for 1981 is expected to be about \$17,000,000.

The National Energy Policy will have a modest adverse effect on Rayrock's cash flow. From the point of view of the junior Canadian controlled resource developer, the problems with the National Energy Policy could be alleviated by a more rapid increase in oil and gas prices and a reduction in the excessively high Alberta Government royalties on new production. These two moves would make more revenue available for the provinces, the Federal government and the industry. The other problem is shut-in gas.

Pyx Explorations Ltd., owned 33.5% by Rayrock, is also becoming more active in hydrocarbon exploration. Although participations generally have been small, interests were earned in 27 wells in 1980 which resulted in 17 gas wells, 3 indicated oil wells and 7 dry holes. In late 1980, Pyx agreed to contribute approximately 10% of the cost of a high risk oil drilling program in northern Alberta. Up to eight target areas may be involved and drilling will extend over a two year period.

On behalf of the Board

President and Operations Manager

March 20, 1981

Financial

Based on the issued share capital, earnings increased from 2¢ per share to 16¢ per share and, including extraordinary items, earnings for 1980 were 30¢ per share. Investment income and petroleum operating profits both recorded increases. In 1979, and particularly in 1980, the investment income account has been significantly increased by capital gains on securities transactions. This will decline as our portfolio of marketable securities has been reduced substantially for short term cash requirements. Although the company's activities increased in 1980, exploration expenditures charged to the statement of earnings declined due to the capitalization of successful oil and gas well drilling and the Pinson mine expenditures. Working capital decreased to \$544,000 at year end. Over the past two years, the use of working capital accounted for some \$4,800,000 or in excess of \$1.00 per share. The principal areas of investment have been the Pinson project and the oil and gas activities. Marketable securities at year end, including shares held in associated companies, had a market value of \$2.74 per Rayrock share.

Chairman and Chief Executive Officer

Mining

PINSON MINING COMPANY

The Pinson Mine is a 1,000 ton per day open pit gold mine located near Winnemucca, Nevada. Production started on schedule in January 1981. Rayrock has a 26.5% interest and management of the project.

Site preparation began in February 1980. Construction of the mill and plant and preparation of the open pit continued throughout the year. The mill incorporates the latest advances in carbon-in-pulp gold recovery technology and includes innovative design and engineering by the mine operating staff. A very efficient operation is indicated by the relatively trouble free mill run in period. By February 1981, the grade of mill feed and mill recovery were right up to plan.

Ore reserves were significantly increased during drilling for pit design and now total 3,250,000 tons grading 0.12 ounces gold per ton in the main pit. Also, there are an indicated 5,000,000 tons grading 0.025 ounces gold which testing has shown to be amenable to low cost heap leaching. Much of this material lies within the main pit stripping area. It is planned to begin construction of heap leach facilities, at a cost of \$2,000,000, in mid-1981. Additional reserves, estimated at 1,340,000 tons grading 0.08 ounces per ton, are available at the Preble deposit, owned by Pinson, within trucking distance to the mill.

The total project cost to the start of production, including working capital and interest during construction, amounted to US \$18,800,000. Financing was provided by a bank project loan of \$15,750,000 and \$3,050,000 of equity contributions by the Pinson Joint Venture members. At an average gold price of US \$500 per ounce, it is anticipated that the project will finance the heap leach facilities and retire the bank loan in eighteen months following which substantial cash flow will begin accruing to the joint venture.

DISCOVERY MINES LIMITED (Rayrock 41% Interest)

Discovery's Gordon Lake gold property, located 60 miles northeast of Yellowknife, N.W.T., has been leased to Noranda Mines Limited and Pamour Porcupine Mines Limited. During the first half of 1980, the Contractor for the Lessees placed a mining plant, camp facilities and a 150 ton per day modular mill on site. At

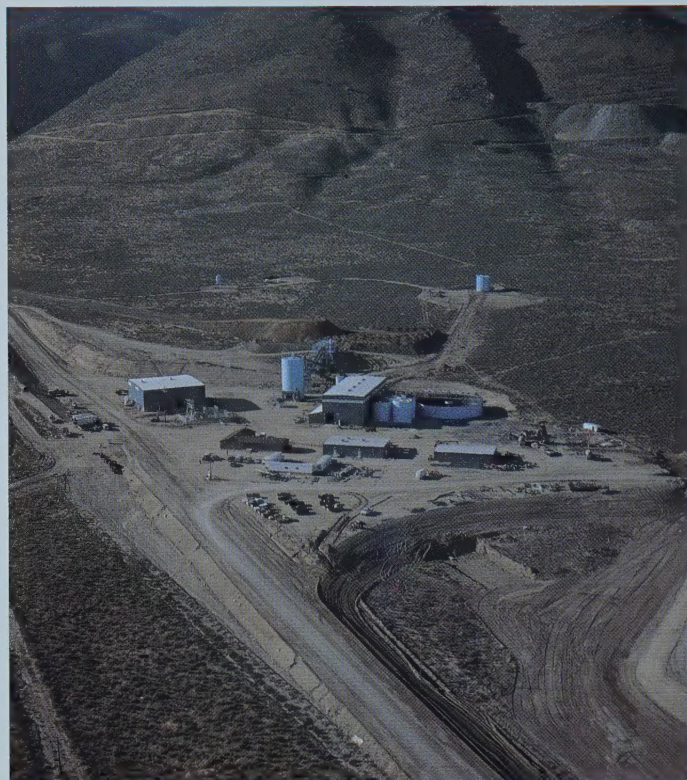


Photo credits to George Hunter

The Pinson plant area showing crushing, milling, mine maintenance, office, and warehouse buildings.

the same time, the shaft was deepened 200 feet to 1,050 feet. Production started in July, on schedule.

Results to year end have been below expectations, a result of power plant failures and problems in the mill and in the mine. Up to year end, only 12,282 tons grading 0.472 ounces gold per ton were milled to produce 4,738 ounces gold and 1,291 ounces silver. An operating loss of \$856,000 was incurred. Substantial improvements to the operation have been made since year end and better results are anticipated.

Ore reserves at December 31, 1980 above the 1,000 foot level are estimated by the Lessees at 30,250 tons grading 0.58 ounces gold per ton. Drilling below the 1,000 foot level confirmed the continuity of the Main Vein to the 1,200 foot level. Discovery was advised by the Lessees that the current gold price of US \$500 precludes plans to deepen the shaft at this time.

Exploration agreements have been made on three of Discovery's gold properties. The La Forma Mine, in the Yukon Territory, has been optioned to Arctic Red Resources Corporation. That company has committed to spend \$400,000 on underground exploration of the



During development of the Pinson open pit, 15,000 tpd of waste rock and ore are mined.



Constructing the environmentally sealed tailings dam for Pinson.

G-3 Zone by October 31, 1982. At shut down of operations in 1966, the mine reported estimated reserves of 68,500 tons grading 0.44 ounces gold per

ton above the lowest adit level. Diamond drilling to a depth of 400 feet below this level returned several ore grade intersections. Discovery will have a 5% net smelter return royalty if the property is placed in production. Until the property is in commercial production, Discovery is to receive advance royalty payments of \$25,000 in 1983, 1984 and 1985; thereafter, annual advance royalty payments are to increase at a rate of \$25,000 per year up to a maximum annual payment of \$200,000.



The Pinson two stage crushing plant.

In a separate agreement with Arctic Red, the East Block of seven claims at La Forma were optioned for cash payments aggregating \$100,000 and a net smelter royalty of 3%. The claims are underlain by a complex Tertiary intrusive which geochemical surveys have shown to be highly anomalous in gold and associated metals.

The original Discovery Gold Mine property, in the N.W.T., and a large area in the vicinity is the subject of an agreement in the final stages of completion. A major corporation plans significant exploration expenditures and can earn a 60% interest. Discovery would then have a 40% working interest or a 15% carried interest in all claims. Field work will commence this summer.

PYX EXPLORATIONS LTD. **(Rayrock 33.6% Interest)**

Effective June 30, 1980, Pyx was amalgamated with Norita Quebec Mines Limited and Amagami Mines Limited. Pyx now receives directly the proceeds of the sale by Norita of its 25% net profits interest in the

Norita Mine at Matagami, Quebec to Noranda Mines Limited. The sale price was \$4,800,000, payable in installments of \$400,000 in July, 1980, payments of \$1,000,000 each due in January of each of the next three years and the balance of \$1,400,000 in January, 1984. In addition, a royalty of \$200,000 remained to be paid to Norita at the rate of 25¢ per ton milled. The sale agreement also provides for the payment of \$1.00 for each ton of ore milled in excess of 3,500,000 tons after January 1, 1980.

Pyx has entered into an agreement with New Athona Mines Limited for exploration and development of New Athona's gold property at Goldfields, Saskatchewan which is held by lease from the Saskatchewan Government. Extensive surface and underground work in 1936 to 1939 indicated potential reserves of 2,000,000 tons grading 0.07 ounces gold per ton plus 1,300,000 tons grading 0.03 ounces per ton. A large proportion would be suitable for open pit mining with a low stripping ratio. Sampling and testing by Pyx has shown that the material is not amenable to heap leach gold recovery. Preliminary flotation tests were favourable and further testing has been proposed.

CORDEX IV SYNDICATE

The Cordex IV Syndicate is financed equally by Dome Mines, Lacana Mining Corporation and Rayrock, each with a 29⅓% net interest. The Syndicate is managed by Mr. J. S. Livermore based in Reno, Nevada. Exploration is concentrated in Nevada and border areas of adjacent states. The primary objectives are gold and silver deposits with a potential for open pit mining and heap leaching.

During 1980, numerous prospects were examined and preliminary work was done on eleven separate gold occurrences. Initial results of mapping, sampling, trenching and rotary drilling were encouraging at six of the prospects and these will be further explored in 1981.

The most advanced program is on the Hasbrouck prospect, located five miles south of Tonopah, Nevada. Drilling has indicated potential open pit reserves of one million tons grading 0.06 ounces gold and 1.0 ounces silver per ton and a possible additional 4 million tons grading 0.03 ounces gold and 0.60 ounces silver per ton. Preliminary heap leach tests have indicated good recoveries of gold with the material ground to minus 20 mesh. Silver recoveries were poor and additional metallurgical studies are in progress. An underground bulk sampling program to confirm the grade of deposit is planned.

IBERIAN SYNDICATE

Rayrock has a 21.25% net interest in this joint venture which is exploring for high grade silver-lead deposits in the Penarroya District of Spain. Geological

studies, geochemical surveys and geophysical surveys continued on possible extensions to previously mined deposits and other favourable structures.

A ten hole diamond drill program was carried out on the Santa Leocadia Mine area to explore indicated extensions of the structures to the south of the old workings. Two strong structures are present. Based on the drilling results, Vein A has an indicated length of at least 1,500 feet, an average width of 5.5 feet, and an undiluted grade of 6.40% lead, 2.52% zinc and 5.10 ounces silver per ton; Vein C has a length of 1,200 feet, an average width of 4.0 feet, and an undiluted grade of 1.85% lead, 4.48% zinc and 3.43 ounces silver per ton. The results are encouraging but following further drilling, high cost underground exploration will be required and, consequently, Rayrock's further participation is under review.

Oil and Gas

RODNEY AREA AND GOBLES FIELDS

Rayrock operates three wholly owned waterflood oilfields in southwest Ontario. The annual production decline was less than normal in 1980 and, coupled with price increases averaging \$2.24 per barrel over the year, net field revenue increased 16.5 percent over 1979. Remaining recoverable reserves at January 1, 1981 are estimated at 640,000 barrels.

The table below gives the significant operating information for 1979 and 1980:

	1979	1980	% Change
Sales (Bbls)	102,600	99,277	— 3.2
Sales (Gross)	\$1,433,579	\$1,613,263	+ 12.5
Royalties and			
Transportation	235,669	262,925	+ 11.6
Production Expenses .	413,397	436,570	+ 5.6
Net Field Revenue . . .	784,513	913,767	+ 16.5

CANADIAN OIL & GAS FUND (1975) JOINT VENTURE

Rayrock has a 28.5% net interest in this joint venture which owns interests in several producing shallow gas properties in southeast Alberta. In an independent evaluation in August 1980, Rayrock's share of proven and probable reserves is estimated to be 2.43 BCF. Net income to Rayrock in 1980 amounted to \$183,237.

During the year a total of 23 infill wells were drilled and completed as gas wells at the producing fields in order to maintain production levels. In addition, 5 exploratory wells were drilled with 4 successfully completed as potential gas wells and one dry hole.

SIGNALTA JOINT VENTURE

Rayrock finances direct participations in oil and natural gas exploration and development through interests in certain of the projects managed by Signalta Resources Limited of Calgary. One new project was started in 1980. Estimates at December 31, 1980 show interests earned in 42,764.62 gross acres and reserves of 34.712 BCF of natural gas. Rayrock's share has been estimated at 3,072.92 net acres, based on after payout figures, and 2.346 BCF natural gas. Net revenue to Rayrock during the year totalled \$111,041.

Agreement has been reached that beginning in

January 1981, Rayrock will finance 5% of Signalta's total budget and therefore will participate in all of its future projects.

Rayrock has financed 12.5% of the cost of exploration and development of three townships located in the Forestburg area of east central Alberta and also an 11.9667% interest in a gas processing plant with a capacity of 4.5 MMCFD constructed by the joint venture. The plant was completed and production started on schedule in March 1980. There are now 5 wells tied in and supplying gas to the plant. During the year, 10 wells were drilled, of which 5 were completed as potential gas wells and 5 were dry and abandoned. A total of 14 gas wells have been completed in the area, and additional drilling is planned for 1981.

At the Wilkins Project two potential gas wells were drilled in 1980 on a farm-in with options that could earn interests in 9,600 acres in an area of potential shallow gas in east central Alberta. Rayrock is paying 21.25% of the cost of this project. Estimated gross gas reserves in the two wells total 1.112 BCF and net reserves attributable to Rayrock are 135 MMCF.

RENAISSANCE JOINT VENTURE

In 1978 and 1979, Rayrock participated in oil and gas exploration programs managed by Renaissance Resources Ltd. of Calgary. This has provided exposure to a wide variety of targets in many areas of Alberta and British Columbia.

1978 Joint Venture

Rayrock financed a 6.584% net interest and earned varying interests in 72,144 gross acres of land. Rayrock's share of natural gas reserves (before royalties) was estimated on December 31, 1979 at 602 MMCF proven and 57 MMCF probable plus liquid equivalents.

During the year, 4 wells were drilled resulting in 3 potential gas wells and one dry hole. This brings the program totals to 25 gas wells and one oil well in 42 wells drilled. Two gas wells are now on stream and flow lines are being constructed at another two.

1979 Joint Venture

Rayrock has financed a 5.7176% net interest in this

program. An independent evaluation of the program at July 1, 1980 estimated that the joint venture interest in gross reserves totalled 9.292 BCF gas and 5,000 BBLS oil. Reserves attributable to Rayrock are a net 386 MMCF gas and 285 BBLS oil. In addition, the joint venture has interests in a gross 75,244 acres of undeveloped land.

During 1980, the joint venture participated in the drilling of 19 wells which resulted in 14 potential gas wells, 2 oil wells and 3 dry holes. Seven of these gas wells and one of the oil wells were drilled after the above reserve figures were prepared. At year end, the program totals were 59 wells drilled resulting in 30 gas wells, 3 oil wells and 26 dry holes. One oil well and one gas well are on stream and flow lines are being laid at a second gas well.

VIKING-RAYROCK LANDBANK

Rayrock participates with Viking Oil & Gas Ltd., a private Edmonton based company, in bidding at provincial land sales to acquire petroleum and natural gas rights in Alberta. Rayrock is financing 64.9% to earn a 51.9% interest after payout.

During 1980, the joint venture participated in the purchase of 10,880 gross acres in the Saleski area of northern Alberta. Added to previous purchases, this forms a compact block totalling 19,200 acres. Rayrock's interest is a net 5,696 acres. Two wells were drilled, of which one resulted in a potential gas well and the second encountered oil in sands of the Wabiskaw Formation and has been cased as a potential heavy oil well. Further drilling has been postponed pending results of drilling on adjoining lands.

SAWTOOTH JOINT VENTURE

The joint venture, managed by Morrison Petroleum Limited of Calgary, is exploring for oil in southern Alberta. Rayrock will contribute 8.0% of a total budget of \$10,000,000 over two years to earn a net 6.0% interest. The one well drilled was dry and abandoned. A section of land was farmed out and the well drilled by the farmee was cased as a potential gas well.

ALDBOROUGH JOINT VENTURE

Rayrock has a 30% working interest in a program of exploration drilling for oil in Elgin County, Southwest Ontario. By participating in the drilling of 2 wells, Rayrock earned a 30% working interest in 2,013 acres. One well was dry and abandoned. The second well was successful and was put on production at the rate of 13 barrels per day in November 1980.

PYX EXPLORATIONS LTD.

Rayrock owns 33.6% of the issued shares of Pyx and effectively controls that company. Pyx participates along with Rayrock in four of the joint ventures described above and in four other joint ventures on its

own. Pyx participated in the drilling of 27 wells which resulted in 17 gas wells, 2 oil wells, 1 heavy oil well and 7 dry holes.

At the Ferintosh Project, where Pyx has an 11.25% working interest, two holes were drilled. One was a dry hole and the other a potential gas well which tested 4.3 MMCFD. On a 640 acre property, in the Kinsella area, Pyx paid 33.5% of the cost to earn a 25% interest before payout and 12.5% after payout in a well which tested 1.29 MMCFD. This well is in a contract area and should be on stream in 1981. Two dry holes were drilled by the South Alberta Joint Venture in which Pyx has a 10% working interest. These three projects are managed by Signalta Resources Ltd.

Pyx financed a 3.4305% net interest in the Renaissance 1979 Joint Venture. Pyx's share of reserves (before royalties) at July 1, 1980, were 323 MMCF gas.

Pyx is paying 15% to earn a 12% net interest in the Viking-Rayrock Landbank and 2% to earn a 1.5% net interest in the Sawtooth Joint Venture.

Late in 1980, Pyx agreed to fund 10.0% of the costs of the Western Star Project, a high potential but high risk oil exploration project in Alberta and Saskatchewan. The program managers are D. W. Axford and associates of Calgary, and the initial budget is \$3,500,000. Up to eight wildcat locations have been identified. Drilling will commence in 1981.

UNITED STATES

Rayrock has a 5% interest in approximately 16,000 acres of leases covering a number of prospects in northeast Montana. Acreage at one prospect has been farmed out with Rayrock retaining a 0.20% overriding royalty convertible to a 2.612% working interest after payout. The well drilled by the farmees was completed as a Red River Formation oil well and is producing an average of 250 BBLS per day. Rayrock is funding its working interest in the second well, now being drilled.

Rayrock is financing 25% of a joint venture with Signalta Resources of Calgary and other co-venturers for oil exploration in Oklahoma. Three wells had been drilled by year end. Two are potential small producers of oil and the third a dry hole. Three more wells are scheduled to be drilled in early 1981.

Consolidated Statement of Earnings

For the Year Ended December 31, 1980

	1980	1979
Revenue		
Revenue from petroleum operations	\$2,159,122	\$1,734,331
Investment income	615,860	441,680
Gain on sale of fixed assets	8,009	—
	<u>2,782,991</u>	<u>2,176,011</u>
Expenses		
Cost of petroleum production	1,005,276	886,213
Administrative and general	177,431	193,335
Depreciation, amortization and depletion	266,329	197,142
	<u>1,449,036</u>	<u>1,276,690</u>
Earnings Before the Undernoted Items	1,333,955	899,321
Exploration Expenditures (note 1(d))	409,072	650,111
	<u>924,883</u>	<u>249,210</u>
Provision for (Recovery of) Income Taxes (note 1(c))		
Current	(13,354)	22,336
Deferred	203,000	95,000
	<u>189,646</u>	<u>117,336</u>
	735,237	131,874
Share of (Loss) Determined by the Equity Method (note 2)	(7,111)	(29,732)
Earnings Before Extraordinary Items	<u>728,126</u>	<u>102,142</u>
Extraordinary Items (note 5)	653,015	—
Net Earnings for the Year	<u>\$1,381,141</u>	<u>\$ 102,142</u>
Earnings Per Share Before Extraordinary Items (note 9)	<u>\$0.18</u>	<u>\$0.03</u>
Earnings Per Share for the Year (note 9)	<u>\$0.34</u>	<u>\$0.03</u>

RAYROCK RESOURCES LIMITED

Consolidated Balance Sheet as at December 31, 1980

Assets	1980	1979
Current Assets		
Cash	\$ 262,521	\$ 185,330
Short-term deposits	381,417	775,000
Accounts receivable and prepaid expenses	139,268	170,874
	<u>783,206</u>	<u>1,131,204</u>
Investments and Advances (notes 1(f) and 2)	<u>3,109,297</u>	<u>2,391,417</u>
Oil and Gas Properties (note 1(e))		
Petroleum and natural gas leases — at cost, less accumulated depletion (1980 — \$1,532,708; 1979 — \$1,337,847)	3,163,190	2,347,764
Well equipment — at cost, less accumulated depreciation (1980 — \$243,777; 1979 — \$203,606)	128,959	35,336
Interest in Ranchmen's 1977 Partnership	—	48,374
	<u>3,292,149</u>	<u>2,431,474</u>
Mining Properties		
Interest in Pinson Joint Venture (note 3)	1,088,810	676,318
Interest in net assets of the Icon Sullivan Joint Venture — at estimated realizable value	53,104	51,539
Mine buildings and equipment — at cost, less accumulated depreciation (1980 — \$75,504; 1979 — \$66,533) (note 1(e))	51,876	69,039
	<u>1,193,790</u>	<u>796,896</u>
Other Assets		
Fixed assets — at cost, less accumulated depreciation (1980 — \$26,533; 1979 — \$21,924) (note 1(e))	22,022	8,763
Leasehold rights — at cost, less accumulated amortization (1980 — \$864; 1979 — \$13,878)	2,622	1,542
Deferred charges (note 10)	70,952	—
	<u>95,596</u>	<u>10,305</u>
	<u>\$8,474,038</u>	<u>\$6,761,296</u>

Liabilities

	1980	1979
Current Liabilities		
Accounts payable and accrued liabilities	\$ 239,052	\$ 148,289
Income taxes payable	—	3,336
	<u>239,052</u>	<u>151,625</u>
Deferred Income Taxes (note 1(c))	925,000	722,000
Deferred Revenue	33,574	7,913
	<u>1,197,626</u>	<u>881,538</u>

Shareholders' Equity

Capital Stock (note 4)

Authorized —

2,000,000 preference shares of \$1 par value

6,000,000 common shares of no par value

Issued and fully paid —

100,000 preference shares

4,510,000 common shares

Contributed Surplus (note 4)

Retained Earnings

Purchase of Capital Stock (note 4)

100,000	100,000
4,506,200	4,506,200
774,898	632,431
2,084,618	731,382
<u>7,465,716</u>	<u>5,970,013</u>
189,304	90,255
<u>7,276,412</u>	<u>5,879,758</u>
<u>\$8,474,038</u>	<u>\$6,761,296</u>

SIGNED ON BEHALF OF THE BOARD

J. C. BYRNE, Director

H. J. WHELAN, Director

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1980

	1980	1979
Retained Earnings — Beginning of Year		
As previously reported	\$ 731,382	\$637,457
Share of prior period adjustment of significantly influenced company	—	6,476
As restated	731,382	643,933
Net earnings for the year	1,381,141	102,142
Dividends	(5,500)	—
Share of prospectus expenses of significantly influenced company	(22,405)	(14,693)
Retained Earnings — End of Year	\$2,084,618	\$731,382

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Rayrock Resources Limited as at December 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the

company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 16, 1981

COOPERS & LYBRAND
Chartered Accountants

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1980

	1980	1979
Source of Working Capital		
Current operations —		
Earnings for the year before extraordinary items	\$ 728,126	\$ 102,142
Items which did not require the use of working capital —		
Deferred income taxes	203,000	95,000
Share of loss on equity method	7,111	29,732
Depreciation, amortization and depletion	266,329	197,142
(Gain) on sale of investments	(498,784)	(252,042)
Oil interests written-off	2,512	290,620
	<u>708,294</u>	<u>462,594</u>
Repayment of advances to officers and employees	12,800	—
Proceeds on sale of investments	1,525,467	893,242
Proceeds on sale of equipment	1,675	805
Proceeds on issue of capital stock	62,360	108,260
Deferred revenue received	25,661	7,913
	<u>2,336,257</u>	<u>1,472,814</u>
Use of Working Capital		
Dividends	5,500	—
Additions to mining properties	414,058	676,318
Purchase of equipment	21,374	6,257
Additions to oil and gas properties	1,157,193	869,267
Purchase of capital stock	174,030	48,602
Additions to investments and advances	928,575	453,464
Advances to officers and employees — net	—	4,900
Deferred charges	70,952	—
	<u>2,771,682</u>	<u>2,058,808</u>
(Decrease) in Working Capital	<u>(435,425)</u>	<u>(585,994)</u>
Working Capital — Beginning of Year	<u>979,579</u>	<u>1,565,573</u>
Working Capital — End of Year	<u>\$ 544,154</u>	<u>\$ 979,579</u>

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1980

1. Accounting Policies

The accounting policies of the company are in accordance with generally accepted accounting principles and the significant policies are outlined below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Rayrock Mines Inc.

(b) Translation of accounts of foreign subsidiary company

The accounts of the wholly-owned U.S. subsidiary are translated into Canadian dollars at the following rates:

Current assets and liabilities at December 31 exchange rates;

All other assets and liabilities at the exchange rates prevailing when the assets were acquired or the liabilities assumed.

(c) Income taxes

The company follows the tax allocation method of accounting whereby the provision for income taxes is based upon income reported in the accounts.

(d) Exploration expenditures

Costs incurred in exploring for minerals are charged to expense in the year incurred.

Costs incurred in exploring for oil and gas, including participations in joint ventures, are capitalized until completion of the particular exploration programme, at which time the costs of dry holes are written off. Acquisition costs of oil and gas properties and the costs of drilling and equipping successful wells are capitalized.

(e) Depreciation and depletion

Depreciation is provided on a declining balance basis at rates sufficient to amortize the cost of the assets over their estimated useful lives. The rates in use are as follows:

Well equipment	4% - 30%
Mine buildings and equipment	20%
Other fixed assets	20%

Depletion of oil and gas properties and drilling costs is determined by the unit-of-production method based on proven reserves.

(f) Investments

The investments in shares of Discovery Mines Limited (Discovery) and Pyx Explorations Ltd. (Pyx), significantly influenced companies, are carried at cost adjusted by the company's share of the earnings or losses since significant influence was acquired.

Other long-term investments are written down when there is evidence that their inherent worth has declined below their carried value.

2. Investments and advances

	1980	1979
Shares —		
Investment in shares of		
Discovery Mines Limited		
(41.0%) and Pyx Explorations Ltd. (33.5% owned)		
accounted for by the equity method (quoted market value 1980 — \$10,819,000; 1979 — \$3,862,000)	\$2,253,524	\$1,370,819
Other quoted shares — at cost (quoted market value 1980 — \$1,518,000; 1979 — \$1,113,000)	699,957	580,770
Other shares (unlisted or escrowed) and debentures — at cost, less amounts written off	64,416	120,428
	<u>3,017,897</u>	<u>2,072,017</u>
Advances —		
Discovery Mines Limited	—	215,200
House purchase loans due from officers and employees — (note 10(f))	104,200	127,000
Less: Current portion (included in accounts receivable)	(12,800)	(22,800)
	<u>91,400</u>	<u>319,400</u>
	<u>\$3,109,297</u>	<u>\$2,391,417</u>

The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotation.

The company's interest in Discovery Mines Limited, in which it has significant influence, is accounted for by the equity method by which the original cost of the shares is adjusted for the company's share of earnings or losses after reducing the earnings included therein as a result of Discovery's investment in shares of Rayrock.

3. Pinson Joint Venture

The company holds directly and indirectly a 26.5% interest in the Pinson Joint Venture which is preparing an open pit gold

mine in Nevada for production. Expenditure on this venture prior to December 31, 1978, has been written off in prior years. This joint venture is accounted for by the cost method since the gold mine is not in the production stage.

4. Capital Stock and Contributed Surplus

- (a) During the year the company purchased 34,000 of its own shares at a cost of \$174,030 (1979 — 24,000 shares for \$48,602). The company also disposed of 54,000 of its own shares (for the exercise of employee incentive stock options) for proceeds of \$74,981 (1979 — 9,000 shares for \$8,260) which was below its original cost by \$12,621. The deficiency was charged to contributed surplus.
- (b) Incentive stock options for 101,000 shares were outstanding at December 31, 1980, exercisable at prices ranging from \$0.94 to \$7.20 per share. The options have various expiry dates extending to December 31, 1983.
- (c) The changes in the contributed surplus account in the year are as follows:

	1980	1979
Balance at the beginning of the year	\$632,431	\$672,033
Increase arising on the re-issue of shares previously held by Discovery Mines Limited	155,088	—
Decrease arising on the re-issue of shares through the exercise of the employee incentive stock options	(12,621)	(39,602)
	<u>\$774,898</u>	<u>\$632,431</u>

5. Extraordinary Items

Share of extraordinary item of Norita Quebec Mines Limited as determined by the equity method to date of sale of the company's investment	\$378,145
Share of extraordinary items of Pyx Explorations Ltd. as determined by the equity method	334,087
Share of extraordinary items of Discovery Mines Limited as determined by the equity method	112,697
	824,929
Less: Equity adjustment thereon — portion of extraordinary items applicable to Discovery shareholders other than Rayrock	(171,914)
	<u>\$653,015</u>

6. Remuneration to Directors and Senior Officers

The company pays all the remuneration of directors and senior officers, as defined in the Business Corporations Act of Ontario including the five highest paid employees, of certain associated companies and is reimbursed by these companies for their proportionate share thereof. The total of such direct remuneration received by these directors, officers and employees in the year ended December 31, 1980 was \$225,800 (1979 — \$196,063)

7. Income Taxes

The wholly-owned U.S. subsidiary has substantial loss carry-forwards for U.S. income tax purposes which expire in varying amounts over the next several years. The potential tax benefits resulting from these loss carry-forwards have not been recognized in these consolidated financial statements.

8. Contingent Liabilities and Commitments

- (a) The company is one of the defendants in a \$2,000,000 lawsuit which was commenced in the Superior Court of Quebec by certain Cree Indian bands in northwest Quebec relating to an alleged environmental problem, arising out of a joint venture operation in which the company has a 23.75% interest. The other defendants are Kerr Addison Mines Limited, Newmont Exploration of Canada Limited and Gunnex Limited. In the opinion of the legal counsel for the company, it is not possible to predict the outcome of this action.
- (b) The company has jointly guaranteed the bank loan of the Pinson Joint Venture with the other participants in the venture to a maximum of \$U.S.4,173,750.

9. Earnings per Share

The company's investment in Discovery Mines Limited (41.0%) and Discovery Mines Limited investment in the company (20.8%) mean that the company has an 8.5% pro-rata interest in its outstanding shares held by Discovery Mines Limited. Consequently these reciprocal shareholdings have been taken into account in determining the number of Rayrock Resources Limited shares outstanding for the purposes of computing earnings per share. The weighted average number of shares used in the calculation is 4,052,669 (1979 — 3,827,253 shares).

10. Related Party Transactions

- (a) During the year the company advanced Pyx Explorations Ltd. \$100,000 at an annual interest rate of 13%. The principal together with \$4,711 of interest was repaid during the year.
 - (b) During the year the company was involved in several investment transactions with those companies accounted for by the equity method (note 1(f)). These transactions involved the capital stock of the company, Pyx, and Discovery. The material transactions involved the issuance of 466,805 shares of Pyx to Rayrock, principally in consideration for the transfer of Rayrock's investment in Norita Quebec Mines Limited to Pyx, and the sale on the open market by Discovery of 400,000 Rayrock shares.
 - (c) As discussed in note 6, the company pays all the remuneration of the directors and senior officers together with the rent and other joint costs (including general exploration) of associated companies, principally Discovery and Pyx (see note 1(f)). The amounts charged to the above companies in the year were as follows:
- | | |
|-----------|----------|
| Discovery | \$63,200 |
| Pyx | 76,000 |
- (d) The company has entered into exploration joint ventures in which certain directors and senior officers also participate. In each case, each participant incurs its proportionate share of costs relative to its joint venture interest.
 - (e) During the year the company contributed \$94,603 towards a past service pension for a senior executive. This contribution is being expensed over four years commencing in 1980.
 - (f) The company has made three non-interest bearing housing loans to three senior officers.

